

Southwestern Bell

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

November 12, 1992

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General Attorney

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Dear Bill:

Re: Reply to Oppositions To Direct Case of Southwestern
Bell Telephone Company, CC Docket No. 92-91

Enclosed please find an original and seven (7) copies of the above-referenced pleading to be filed with the Secretary of the Commission on Friday, November 13, 1992.

Additional copies of the pleading are attached to be used as courtesy copies and one is included for your files.

Please call to confirm that the pleading has been filed.
Thank you for your assistance.

Very truly yours,

Richard C. Hartgrove

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Enclosure

Phone 314 235-2506

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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of)	
)	
Open Network Architecture Tariffs)	
of Bell Operating Companies)	CC Docket No. 92-91

TO THE COMMISSION

REPLY TO OPPOSITIONS TO DIRECT CASE
OF SOUTHWESTERN BELL TELEPHONE COMPANY

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November 13, 1992

CC Docket No. 92-91

Comments of
Southwestern Bell Telephone Company

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SUMMARY*

The oppositions to SWBT's Direct Case and ONA tariffs spend considerable time arguing over the process established by the Bureau to allow participants in this docket to review SWBT's proprietary information. These arguments come after a number of rulings (including one from the District Court) that the process is legal. The oppositions wrongfully assume that the tariff filing rules entitle them to full disclosure of all the materials made available to the Commission.

Other challenges to SWBT's ONA tariffs fail to establish any basis for rejection. SWBT properly used marginal cost principles in its use of SCIS, and also used proper inputs in working with SCIS to establish investment levels. The differences in the ONA tariff rates themselves do not justify continued investigation. It is reasonable for the BOC rates to differ, based upon each BOC's capital investment, technology deployment, and market strategy.

Finally, SWBT explains herein that Sprint's challenge to SWBT's ASR policy is flawed. It is unclear whether other BOCs will also require ASRs, contrary to Sprint's allegations, and Sprint, in any event, had substantial notice of SWBT's intentions in the Ordering and Billing Forum (OBF), and did not oppose the requirement at that time. If the Commission does not allow SWBT's ASR policy to take effect, SWBT should be allowed to alter other provisions of its transition plan that are related to the ASR policy.

*All abbreviations used herein are referenced within the text.

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In the Matter of)
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Open Network Architecture Tariffs) CC Docket No. 92-91
of Bell Operating Companies)

REPLY TO OPPOSITIONS TO
DIRECT CASE OF SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company (SWBT), by its attorneys, hereby files its Reply to Oppositions to its Direct Case, pursuant to the Order Designating Issues For Investigation in the above docket.¹ None of the oppositions or comments filed in this docket provides sufficient justification to extend the investigation of SWBT's ONA tariffs. Therefore, SWBT respectfully requests that the Commission conclude its investigation of SWBT's ONA tariffs and find that SWBT's rates and practices are reasonable.

¹ Open Network Architecture Tariffs of Bell Operating Companies, CC Docket No. 92-91, Order Designating Issues for Investigation, (DA 92-43) (released April 16, 1992) (Designation Order). Oppositions were filed by Ad Hoc Telecommunications Users Committee (Ad Hoc) (including a report by Economics and Technology, Inc. (ETI Report)), Allnet Communication Services, Inc. (Allnet), American Telephone and Telegraph (AT&T), General Services Administration (GSA), MCI Telecommunications Corporation (MCI), Metromedia Communications Corporation (Metromedia), Sprint Communications Company LP (Sprint), and WilTel, Inc. (WilTel).

I. INTRODUCTION

SWBT filed its first set of ONA tariffs on November 1, 1991. In a Memorandum Opinion and Order released January 31, 1992² the Common Carrier Bureau (Bureau) instituted investigations into the lawfulness of the rates filed. The Bureau suspended the rates for one day, imposed accounting orders, and allowed the tariffs to take effect on February 2, 1992. Pursuant to the Bureau's Designation Order, SWBT filed its Direct Case on May 18, 1992. Eight oppositions were filed,³ and SWBT hereby responds to those oppositions.

For the most part, the oppositions spend considerable time arguing over the process established by the Bureau to allow participants in this docket to review SWBT's proprietary information used in setting rates. Other major portions of the oppositions complain of the differences in the rates filed by the Bell Operating Companies (BOCs).

Nevertheless, the oppositions fail to provide any reason to alter the process established by the Bureau in reviewing the ONA tariff filings. The oppositions also fail to show that the rates should be investigated further. Finally, Sprint is unable to show why SWBT's ASR filing requirement is unreasonable.

² Bell Atlantic Telephone Companies Revisions to Tariff FCC No. 1, et. al, 7 FCC Rcd. 1512 (1992).

³ See, fn. 1, supra.

II. THE BUREAU SHOULD REJECT ALL ARGUMENTS THAT FURTHER QUESTION THE PROCESS IT ESTABLISHED FOR REVIEW OF THE BOCS ONA TARIFFS.

From the outset of the ONA tariff filing process, the Commission has been careful to weigh the need for proprietary treatment of BOC data against its need for information with which to review the ONA tariff filings. While the non-BOC participants in this docket have not had complete access to the SCIS model, none of the SCIS materials have been withheld from the Commission for its own review. The oppositions, in effect, equate their need for the information to that of the Commission;⁴ however, there is no need or legal obligation for the other participants in the docket to have the same level of information made available to the Commission.⁵

While the oppositions have not had complete access to the SCIS materials, the proper function of the oppositions in this docket is only to comment to the Commission how the Commission may better review the Switching Cost Information System (SCIS) materials to determine whether the BOC tariffs are reasonable. Instead, the oppositions generally appear to want a level of SCIS disclosure in order to enable each of them to make such a

⁴ See, for example, Metromedia at pp. 9-10.

⁵ Freedom of Information Act requirements give other parties the opportunity to request information filed with the Commission. The Commission, however, has determined not to release the SCIS materials other than through the process the Bureau established. Allnet Communications Service, Inc., FOIA Control No. 92-266, FCC 92-356, released August 3, 1992. The Bureau's original decision has also been subject to review by the U.S. District Court and has been sustained. Allnet Communications Services, Inc. v. FCC, C.A. No. 92-1350, released August 28, 1992, (D.D.C.) appeal filed, Allnet v. FCC, Case No. 92-5351 (C.A. D.C. filed September 30, 1992).

determination of reasonableness on their own. Nevertheless, the ultimate reasonableness of the tariffs is for the Commission to decide, not the commentators.⁶ The purpose of the tariff filing rules is to provide the public with information that will serve as the basis for comments.⁷ These rules were not "intended primarily to confer important procedural benefits upon individuals."⁸

In any event, attached hereto as Exhibit 1 is a further response to the assertions that the SCIS redaction process made meaningful evaluation of the cost development process impossible. Also attached (as Exhibit 2) is a letter from Arthur Andersen and Co. that responds to questions regarding the objectivity of Arthur Andersen in its review of SCIS and regarding the scope of Arthur Andersen's review itself.

⁶ AT&T acknowledges that the Commission has "correctly protected the confidentiality interests of the BOCs and their switch vendors", and that it is the Commission's duty (not AT&T's) to "fully review" the SCIS models and their application to the BOC's rate development process (AT&T at p. 6, fn. 9).

⁷ See, Amendment of Part 61 of the Commission's Rules Relating to Tariffs and Part 1 of the Commission's Rules Relating to Evidence, 25 F.C.C. 2d 957, 970-71 (1970).

⁸ See, American Farm Lines v. Black Ball Freight Service, 397 U.S. 532, 538 (1970); Associated Press v. F.C.C., 448 F.2d 1095, 1104 (D.C. Cir. 1971).

III. SWBT'S ONA TARIFF RATES ARE REASONABLE.

Notwithstanding the ongoing dispute over access to SCIS, the oppositions generally criticize SCIS and how it was used.⁹ SCIS is fundamentally sound and provides reasonable estimates of switching system investment attributable to service and feature usage of the switch. SCIS accurately estimates the cost of actual switching systems engineered according to manufacturer engineering rules as evidenced by Bellcore's validation procedures and results.

A. Marginal Cost Is The Appropriate Standard.

A number of oppositions question SWBT's use of marginal cost principles.¹⁰ The marginal investment version of SCIS produces direct incremental costs appropriate for a long run incremental cost study. The average investment version of SCIS produces allocated investment which is not economically meaningful in developing the long run economic cost of a service.¹¹ In both average and marginal investment methods, SCIS provides forward looking, incremental unit investments.¹²

⁹ MCI at Appendix 4; Sprint at Appendix; Metromedia at p. 4.

¹⁰ MCI at p. 5.

¹¹ The Long Run Incremental Cost (LRIC) is in effect, an economic price floor, and is meaningful as a test against market rates to analyze the perceived threat of predatory pricing. LRIC is not designed to be used as a substitute for noneconomic revenue requirement-based pricing since it should not and does not capture family of services costs or historical cost commitments.

¹² GSA acknowledges SWBT's use of the LRIC option, and supports LRIC as the appropriate basis for price floors. (GSA at p. 4.) Likewise, Allnet and WilTel support the use of marginal cost. (Allnet at p. 4 and WilTel at p. 7).

SWBT filed several of its BSEs with the average investment version of SCIS. At the time those studies were done, a marginal investment version was not available. SWBT usually schedules the production of a cost study based on a predetermined filing schedule. This routine assures that all studies are refreshed and updated within a reasonable period of time to reflect changing conditions, technologies, etc. This practice also means that, as in the instant case, a study that is current (within the study period) may be included in a tariff filing, even though the study is scheduled for updating in the near future.¹³

SWBT's cost analysts use a cost model that reflects the most current data available at the time the cost study is produced. This requirement allows consistency in production as well as accurate cost. The ongoing study update routine allows the most current costing methodologies and models to be utilized.

SCIS marginal investments are long run because the models consider demand over the entire economic life of a switch. In particular, the marginal investments are for new demand of a service or group of services, and that demand is assumed to be long term. In the telecommunications industry, most cost studies are described as long-run since they attempt to estimate all of the costs caused by the relevant decision, even if the costs occur at a distant time in the future. In calculating the long run cost of

¹³ The ONA BSE studies which utilized SCIS Release 4.5 were produced in the third quarter of 1990. This release was based on the 1989 central office engineering data (the most current data available). Studies for the remaining ONA BSE features were produced in the third quarter of 1991, using SCIS Release 5.0.1. This release utilized 1990 central office engineering data.

a service, the model allows for the situation where the facility in question is expected to "exhaust," that is, where the facility needs to be added to or augmented. If the facility is expected to exhaust, the models accommodate a business decision to upgrade the facility since they include the full capital costs of the portion of capacity that is utilized by the service.

SWBT produces cost studies by state in compliance with individual state regulatory requirements. These ONA studies are appropriate for an interstate filing because they are jurisdictionally transparent. The costs developed for ONA on an intrastate level are the same costs that would be used for an interstate filing. A weighting process is applied to the individual state cost study results, creating a company cost. This single weighted company cost is then used to develop the ONA rates.

The AT&T reference on page 12, note 19 regarding traffic usage data, such as the Interstate switched access minutes of use, has no direct bearing on the ONA BSE studies under investigation here. This type of traffic usage based data is not required as an input to ONA BSE studies, and it is not the same data as the central office engineering data used to populate SCIS model office studies.

B. BOC ONA Rates Cannot Be Presumed Unreasonable On The Basis of Differences Between Companies.

The principal argument against the BOCs' rates for ONA services is the presence of differences in rates for like services among the BOCs.¹⁴ Price differences alone, however, cannot be considered sufficient evidence that any of the rates are unreasonable. Since 1984, each BOC has been making independent judgments regarding capital investment, technology deployment, and market strategy. It should come as no surprise that the BOCs have become increasingly dissimilar in terms of cost structure and resulting rate setting requirements. This trend is irreversible. The differences between the BOCs will continue to grow over time. The ability of SWBT or any other BOC to properly analyze costs and set reasonable rates should not be contingent upon some arbitrary benchmark of similarity between companies. The rates for the ONA services filed by each BOC must be analyzed on the basis of each BOC's unique circumstances. The complaints of intervenors to the contrary should be dismissed.¹⁵

Opponents of the BOC ONA tariffs also argue that the BOCs have unfettered pricing flexibility due to the discretion permitted through the input parameters to the SCIS model.¹⁶ Just as it is reasonable to presume that the BOCs' rates for services should reflect the differences between the companies, it is also

¹⁴ See for example, GSA at p. 7.

¹⁵ GSA concedes that the BOCs have reasonably explained to the Commission the reasons for variables in rate development in their responses to the issues identified for investigation. GSA at p. 4.

¹⁶ See, MCI at pp. 3 and 35; and Ad Hoc at p. 9.

unreasonable to argue that a specific set of cost model inputs should be imposed, as advocated by WilTel.¹⁷ The legitimate questions before the Commission at this time are 1) whether or not the SCIS model produces theoretically and technically sound cost results, and, 2) whether or not the BOCs' inputs to those models, in this case, were reasonable. Based on the review by Arthur Andersen, the models are valid, and the variances in results produced by the models are the result of justifiable differences in cost structure, investments, and business operations between the BOCs.

C. SWBT's Model Office Inputs Were Reasonable And SWBT's Engineering Estimates Are Not Unlike The "Real World."

Some oppositions questioned SWBT's model office inputs and engineering estimates.¹⁸ SWBT's "model offices" are representative because SWBT annually polls all its offices to update the SCIS central office data. This information is entered into the model, replacing the previous year's data and is then used to develop feature cost. The SCIS inputs used for the ONA feature runs were chosen to best represent SWBT's specific network and technology mixes which included both 5ESS and DMS switches. Where inputs are required, it is appropriate to use data that identifies the specific network under study. This flexibility allows SCIS to emulate that specific network, and therefore, provide data specific

¹⁷ See, WilTel at pp. at 40-41; see also, Ad Hoc at p. 10.

¹⁸ MCI at p. 17; ETI Report at p. 8.

to SWBT rather than a generic network.

The offices contained in the SCIS model cannot be compared to any actual or embedded data. SCIS is forward looking because technology upgrades that are planned in the immediate future (3 years) are included. Therefore, a comparison of host-to-remote ratios will not match, nor should it be required to match, information found on the ARMIS infrastructure report referenced by ETI.

Central office assumptions regarding switch replacement schedule and capacity at replacement are periodically reevaluated in view of changing demand. Switch replacement before central processor exhaust may occur either because of anticipated demand or technological obsolescence. Switch upgrades such as these are required to maintain existing service quality and to allow new services to be offered to our customers.

D. SWBT's Inputs To The Model Were Reasonable.

ETI argues that a cost of money input greater than 11.25% requires special justification.¹⁹ The use of the economic cost of money, which may be more or less than 11.25%, is reasonable in order to correctly identify the economic cost of the service. Identification of a prescribed rate of return is a function of revenue requirement determination, but has nothing to do with establishing the economic cost for pricing. Economic costs for pricing ought to be based on the actual cost of money a company

¹⁹ ETI Report, at p. 9.

expects to incur at any given point in time. Incremental cost studies are designed to identify the true economic cost to the company of providing service and therefore ought to use the forward looking economic cost of capital. The cost of money is not determined by a regulatorily determined revenue requirement, but rather by the general economy.

IV. SPRINT FAILS TO SHOW THAT SWBT'S ASR REQUIREMENT IS UNREASONABLE.

Sprint is unable to show that SWBT's ASR policy is unreasonable. Contrary to Sprint's allegation, SWBT does not mischaracterize the Ordering and Billing Forum's (OBF's) role and actions regarding ONA.²⁰ Further, it is not clear from the record that SWBT is alone among the BOCs in requiring IXCs to submit ASRs to convert existing feature groups to ONA equivalents.²¹ Sprint and SWBT are not in agreement that it is costly and burdensome for any party to generate ASRs.²² Sprint's suggestion of providing a letter specifying particular circuits to convert to ONA²³ does not meet SWBT's needs, as detailed herein.

Sprint's claim that SWBT has mischaracterized the role of the OBF is an attempt to confound the issues. Although the OBF does not develop or recommend individual company approaches to ordering processes, it does develop uniform ordering processes

²⁰ Sprint at p. 8.

²¹ Id. at p. 9.

²² Id. at p. 10.

²³ Id. at p. 10, fn. 12.

based upon individual company input. As such, the OBF is the most appropriate arena for Sprint to have raised the issue of ordering processes and to have worked toward an industry consensus that was equitable for all participants.

Sprint claims that "it should have been no surprise to SWBT that Sprint would have used the tariff review process to voice its concerns about SWBT's ASR policies."²⁴ However, after having given Sprint not one, but two opportunities²⁵ to discuss its ASR policies, and having received neither questions, comments or concerns, SWBT was indeed surprised at Sprint's use of the review process on this issue.

Because SWBT received no negative feedback from Sprint, or any other IXC with whom it shared its plan, SWBT reasonably expected that use of the ASR process was an acceptable requirement. SWBT continued to develop its ONA transition period based upon the understanding that it would be able to rely upon an established method for communication (the ASR process) between IXCs and LECs.

Sprint's claim that SWBT is alone among the BOCs in requiring ASRs is not substantiated by the record. As Sprint itself points out, "all of the BOCs have not yet provided Sprint with detailed conversion plans."²⁶

What is known is that at least one BOC "does not require

²⁴ Id. at p. 8.

²⁵ In addition to sharing its plan at the OBF, SWBT, at Sprint's request, also provided Sprint with a complete illustrative tariff package for its review on September 27, 1991.

²⁶ Id. at p. 9.

ASRs to convert existing facilities to their BSA/BSE equivalents."²⁷ SWBT notes that this BOC, Ameritech, has an interim plan sufficiently different from SWBT so that it can, apparently, accommodate a different conversion procedure.²⁸

SWBT's approach to the transition period was to provide as much flexibility as possible to its access customers so that they could design individual transition plans that best fit their unique business needs and to provide this flexibility without causing undue burdens to SWBT. The utility of the ASR process was key to SWBT's decision to allow feature groups and BSAs to be mixed at the level currently provided for in its tariff. If the benefits of allowing this mixing are of little or no value, SWBT could forego the ASR process -- provided that SWBT's transition plans were amended to require conversions to BSA/BSE formats at the company level (as provided for by the Ameritech plan).

Since no participant to these proceedings has voiced protest to a company-level conversion process, the Commission should allow SWBT to so amend its plan. However, if the current level of flexibility is required, the ASR requirement should be retained.

As SWBT stated in its previous comments, the information flow from customer request to inventory records is a mechanized process that begins with an ASR. If an ASR is not received from the customer, one must be generated manually by SWBT. The

²⁷ Id. at p 10.

²⁸ The Ameritech plan requires conversion to BSA/BSE formats at the company level.

substitution of a labor intensive manual process for a relatively inexpensive mechanized procedure is not, as Sprint contends, less burdensome. Mechanized procedures other than the standard ASR process currently do not exist. SWBT's implementation of ONA was predicated on providing an access customer with the flexibility to convert individual billing accounts until the transition period ends on July 1, 1993. This customer flexibility requires a reasonable method to identify specific accounts for conversion. The ASR is the standard vehicle for this process.

During the ONA transition period, the ASR causes SWBT's network inventory (TIRKS) and billing (CABS) systems to assign new Exchange Carrier circuit IDs for converted services. This circuit assignment is required during the transition period to track and report on converted ONA accounts. Design Layout Reports (DLRs), containing new circuit IDs and Firm Order Confirmations (FOCs) must be generated for the customer to identify successfully converted accounts.

The ASR is the audit control. If SWBT service representatives were required to manually prepare all conversion ASRs, the entire process could become subject to inadvertent input errors that could result in customer billing and inventory discrepancies. Therefore, because of the above mentioned requirements, conversion of existing feature group services to BSA/BSE formats is not a simple matter of a records change.

SWBT did not, as Sprint asserts, claim that "it is costly and burdensome for any party to generate ASRs for existing switched access circuits being converted from feature groups to their

BSA/BSE equivalents" (emphasis added).²⁹ What SWBT claimed was that it would be burdensome for SWBT to manually generate ASRs for all of its customers' services. Sprint's suggestion that BOCs should accept a letter detailing which circuits in a given LATA are to be converted as of a given date³⁰ is not less burdensome. An acceptable process would be for all circuits for a given company to be converted at the same time.

To the extent that submitting ASRs is truly a burden for Sprint, Sprint need not take any particular action to convert to ONA (provided that the elimination of the feature groups remains mandatory). As SWBT has previously stated,³¹ SWBT will mechanically convert all feature group services to BSA/BSE formats on July 1, 1993.

In light of the possible retention of feature groups, as currently contemplated in CC Docket No. 89-79, SWBT requests that the Commission direct this issue back to the OBF for resolution. To the extent that feature groups and BSAs are allowed to coexist, ONA LECs should be allowed some means to recover the costs imposed by customer service choices. Otherwise, SWBT (or any other ONA LEC) could be penalized by a customer who arbitrarily switched its services back and forth between feature groups and BSA/BSE

²⁹ Id. at p. 10.

³⁰ Id. at fn. 12.

³¹ See, SWBT's initial ONA filing of November 1, 1991, Transmittal No. 2145, at pp. 2-4 of the Description and Justification; Reply Comments of Southwestern Bell Telephone Company filed December 9, 1991 regarding Transmittal Nos. 2145 and 2146 at pp. 34 and 37; and Direct Case of Southwestern Bell Telephone Company filed May 18, 1992 in CC Docket No. 92-91.

equivalents.

V. CONCLUSION

Based upon the foregoing, SWBT respectfully requests that the Commission conclude its investigation of SWBT's ONA tariffs and find that SWBT's rates and practices are reasonable.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

By



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November 13, 1992

EXHIBIT 1

Further Response to Assertions That The SCIS Redaction Process Made Meaningful Evaluation Of The Cost Development Process Impossible

A number of the oppositions raise a variety of objections to Redaction II in a further attempt to discredit the Switching Cost Information (SCIS) disclosure process.¹ At the outset, the redaction effort was prescribed to both preserve the confidentiality of the Bellcore model and the vendor data contained therein, while allowing participants in the ONA tariff proceedings appropriate access to the cost data. The Redaction II effort was by necessity a compromise. This compromise afforded participants access to the SCIS documentation and software, less the algorithms that represent the intellectual property of Bellcore and vendor information which was considered by the vendors to be so sensitive so as to preclude disclosure. The compromise coupled limited disclosure with an independent review of the model. The compromise afforded participants an extraordinary and unprecedented view into the development of unit investments.

Two essential questions should be addressed regarding the effectiveness of the redaction effort. First, whether the redactions were warranted. Second, whether the redactions prevented the oppositions from constructively contributing to the review process. As shown below, after comparing the Redaction II version of SCIS with the unredacted version, it is clear that the redactions performed were fully justified. Also, a review of the entire disclosure process coupled with an assessment of the arguments and conclusions raised in the oppositions strongly suggests that the process achieved its objectives.

¹ Ad Hoc, at pp. 4-7; see also Metromedia, at pp. 9-13; Sprint, at pp 4-7; Allnet, at pp. 8-9; Wiltel, at pp. 18-20 and MCI, at pp. 32-34.

As mentioned above, the redactions eliminated two classes of information. First and foremost, it eliminated all information that the switch vendors determined could disadvantage their position vis-a-vis their competitors. It is important to note here that SWBT did not participate in, or have prior knowledge of, redaction specifics. The switch vendors made the determination that certain information would either disclose pricing (or discount) specifics, or switch architecture information that could be used - directly or indirectly - by customers, or potential customers, or competitors to the vendor's detriment.

For example, SCIS identifies specific cost primitives, by feature, and attendant costs. Such information not only discloses proprietary switch design information as well as specific component allocation or resources, but the resultant cost data could be used by competitors (or customers) to determine cost efficiencies (or inefficiencies) predicated on those designs or allocations. Disclosure of such information could be used to drive pricing realignments and/or switch fabric redesigns with anti-competitive consequences.

Similarly, disclosure of equipment capacities would provide insight into a vendor's engineering design, while disclosure of processor utilization factors (PUF) was determined by the vendors to disclose purchasing information that is considered proprietary. In short, disclosure of such information would be a destabilizing force that could result in unnecessary disruption of the marketplace. It could also advantage those vendors whose data was not included in the instant proceeding (i.e., Siemens and Ericsson).

For its part, Bellcore simply performed the redactions at the direction of the switch vendors. Such redactions were appropriate inasmuch as Bellcore obtains vendor proprietary information under strict terms and conditions set forth in Nondisclosure Agreements, and therefore, has a legal obligation to the vendors. The primary

motivation of the vendor is to protect highly competitive and sensitive information that is essential to maintaining a competitive switch manufacturing market. Any implication that the Redactions were contrived is untrue.²

Secondly, the redaction process eliminated the algorithms used in the modeling process, that represent the intellectual property of Bellcore. It is well established that Bellcore licenses the use of the SCIS program and receives substantial fees in return. Licensee of the SCIS model are not given access to the switch cost information on which SCIS is based, nor to the source code. Moreover, Bellcore requires its licensees to restrict access to the licensed information. These precautions are necessary in light of the ever expanding market for a highly sophisticated cost model. This market includes Asia, South America, and Europe in addition to North America.

Bellcore has spent in excess of \$22 million dollars in developing SCIS and receives over \$6 million in fees for its use on an annual basis. These fees are important to Bellcore and would be in jeopardy if the information already disclosed to the intervenors in this proceeding were to be made public. These fees would almost assuredly be foregone if the algorithms withheld here were to be disclosed to any party that either in the present, or in the future had the inclination to enter the cost modeling business. In short, the algorithms are the fabric of SCIS and would allow any party to

² Indeed, the Redaction II process was performed in conformance with instructions provided to Bellcore by AT&T and NTI. A number of parties filing oppositions purchase switches from the very vendors whose data was withheld. Oppositions that have cited the need for access to capacity data (see Ad Hoc, at p. 6), costs primitives (Metromedia, at p. 10) and discount data (Metromedia, at pp. 11-12) would be able to competitively evaluate the merits of switches purchased vis-a-vis those offered by competing vendors. Also, they would be able to compare their costs vis-a-vis those paid by SWBT. Clearly, information that could result in such analysis cannot be disclosed even under the most stringent nondisclosure agreement.

develop a similar model and compete with Bellcore in the worldwide market for costing systems.³

Further, the redaction process did not prevent a meaningful review of the SCIS or the ONA rate development process as some petitioners claim. Petitioners received SCIS documentation and had access to the software which enabled them to perform sensitivity analyses on most of the relevant inputs including all of those provided by SWBT. Further, the Arthur Andersen Report and Appendices, when coupled with the redaction process, provided petitioners with sufficient sensitivity results to raise a multiplicity of specific questions about the reasonableness of the cost and rate development process for the Commission to consider. Such questions would not have been possible, if the SCIS disclosure process were flawed, and meaningful analysis by petitioners was impossible, as some of the opposition claim.

Regarding the SCIS model itself, Arthur Anderson reported on its review of the model and of economic approaches contained therein, and of the Bellcore testing procedures, documentation and user training. In reaching its conclusion regarding the reasonableness of the model, Arthur Andersen did not equivocate. It stated clearly and precisely that the model is "fundamentally sound and provides reasonable estimates of switching system investment." Contrary to the assertions of some oppositions, Arthur Andersen did analyze the engineering-related aspects of the model, including a comparison of model office results derived from SCIS with results obtained from a switch vendor's mechanized pricing tool. Some oppositions also contended that the Arthur Andersen report is flawed as it did not explain the principles governing the conduct of a long run incremental cost study, or the impact that prices derived from different costing methodologies have on economic

³ In addition, many of the algorithms include vendor proprietary data that is considered competitively sensitive by the vendors(s).

efficiency. However, these arguments misinterpret the Commission's directives as to the substance of the review. Arthur Andersen was not required to discuss the principles governing incremental cost studies, or the impact of various cost methods on cost efficiency.

Arthur Andersen conducted a workshop for petitioners on May 13, 1992, during which it described the scope of work to be performed and the analyses that would be conducted. In addition, petitioners were asked to submit comments on the Arthur Andersen review pursuant to a May 15, 1992 letter from the Chief, Tariff Division, Common Carrier Bureau. The comments submitted were included in the final Arthur Andersen Report filed on July 20, 1992, along with the actions taken in response. Such action included revising the scope and substance of the review to accommodate those comments considered both reasonable and within the scope of the review as set forth by the Commission.